



Helen Bray
Director of Stakeholder Relations
SGN
Station Approach
Horley
Surrey
RH6 9HJ

Pete Wightman
Head of RIIO Gas Networks
Ofgem
9 Millbank
London
SW1P 3GE

2 November 2017

SGN Response to Consultation on potential change to the Fuel Poor Network Extension Scheme

Dear Pete,

SGN welcomes the opportunity to respond to the consultation on the potential change to the Fuel Poor Network Extension Scheme (FPNES), dated 7 September 2017. We have provided our responses to the specific consultation questions in Appendix 1 below. These further elaborate on the comments published in the ENA open letter, dated 17 October 2017, provided in Appendix 2.

Our responses indicate that we have significant misgivings relating to the proposed changes, as we do not have confidence that the change will bring the perceived benefits that Ofgem have identified. We would like to take this opportunity to outline the reasons for our reservations:

- The IMD criterion will remove eligibility from around 70% of the households that are currently benefit from the FPNES. The change will therefore almost certainly lead to a significant reduction in the number of households connected through the scheme.
- We do not believe there is sufficient evidence to justify the proposed change, as no data exists to identify the likelihood of a household being fuel poor if it resides in an IMD 25% area **and** is not currently connected to the mains gas network.
- Removing this eligibility criterion will increase the likelihood that new gas mains will need to be laid to reach an individual property, and correspondingly the costs will be attributed to the individual application, rather than a broader area when undertaking works as part of a project. This results in practical limitations as in reality project schemes are only economically viable if the costs are socialised across numerous qualifying properties.
- We have talked to our delivery partners, such as Local Authorities and Housing Association, and they have expressed the concern that reducing certainty around the eligibility of all households in project-scale works will result in them being less likely to work with us to enable and support delivery.



- The proposed change will increase social discrepancy by introducing a benefit based on criteria that can be finely tuned and time dependent. A household can be fuel poor or not from one month to the next, depending on who happens to be living in a property at a point in time.
- We are particularly disappointed that Ofgem are proposing to alter eligibility for the scheme at this stage, as SGN accepted a significant uplift in obligations in 2016 where we increased our total connection targets by 37%. This was a greater increase than any other GDN.
- If these changes are to be enacted, then we would look to Ofgem to take into consideration the impact of these changes when assessing any future progress against targets.

We recognise that both SGN and Ofgem share the common goal of helping to eradicate fuel poverty in the UK, and we support the principle that those who are in the greatest need of help should be the ones who receive it. We also acknowledge the rationale underlying Government's desire to align the FPNES with other schemes aimed at helping those in fuel poverty, such as the Energy Company Obligation (ECO).

However, we believe that removing the IMD criterion unintentionally poses the real danger that many households that are genuinely fuel poor will miss out on the scheme and the associated benefits it brings to people's lives. We therefore urge Ofgem to refrain from making these changes at this time, and instead work with ourselves, our partners and the other GDNs to address the current evidence gaps.

We are happy for this response to the consultation to be made publicly available. If you have any questions on the points raised, or would like to arrange a meeting to explore any of them in more detail, please contact me by email at Helen.Bray@sgn.co.uk.

Kind regards

Helen Bray

Director of Stakeholder Relations, SGN



Appendix 1: Responses to consultation questions

Question 1: Do you agree with our proposed approach for the FPNES? Please state why or why not.

We do not believe that the proposed changes to the FPNES will serve to help fuel poor households and urge Ofgem to reconsider the suggestion to remove the IMD criterion from the eligibility rules for the scheme.

We believe withdrawal of the IMD criterion will undoubtedly result in a reduction in the number of households receiving the benefit of a first-time connection to the mains gas network, and that a high proportion of the households missing out will be living in fuel poverty. We are concerned there is currently insufficient evidence to state with a high degree of confidence that a significant proportion of homes qualifying via the IMD route may in fact not be fuel poor, as is implied in the consultation document. This presents the risk that any decision to make changes to the scheme is poorly informed due to the lack of robust data upon which to make a judgement.

The FPNES targets the GDNs committed to at the launch of RIIO-GD1 (April 2013) were based on the recognition that the IMD criterion was an important factor in identifying eligible households. Indeed, the GDNs increased their targets to reflect previous changes in the scheme when the IMD criterion was extended from 20% to 25%. This change was implemented to offset the negative impact on connection numbers that would otherwise have resulted from removal of the over 70s eligibility criteria, and to better target customers living in fuel poverty.

Ofgem have stated that the GDNs are broadly on track to meet the FPNES targets. We would suggest that this is an optimistic assessment of the current state, as the general trend we've seen over the last few years is fuel poor connection numbers dropping in our Southern network. Whilst we accept that as a GDN we have a significant role in determining the success of the FPNES, there are factors outside our control that have affected progress. These are centred on a) the lack of government funding available to meet the cost of central heating systems in England and b) the difficulties encountered in qualifying residents as eligible for the FPNES scheme via means other than the IMD criterion.

We are fully committed to making every effort to meet our obligations under the FPNES, and it is clear Ofgem share this aspiration. We would therefore ask that Ofgem work with us, the other GDNs and our partners to deliver a more measured approach to reforming the FPNES. Changes must be based on a stronger evidence base, lest we risk failing to meet our fuel poor connection targets and undermining the help that we can provide for households who need extra help to reduce their energy bills and live in a warm home.

Question 2: Are there any consequences that we have not appropriately considered in our proposal?

The IMD criterion is the only proxy measure available to GDNs and partner organisations (such as Local Authorities and Housing Associations) to ensure all households in a deprived area will qualify for an FPNES connection, thereby enabling project schemes to progress. Extending the gas network to communities previously off gas is only economic if the majority or all households are able to connect. 'Pepper potting' households within a community will ultimately result in partners being reluctant to progress, due to perceived inequalities between households in the same street or block, and/or prohibitive costs due to smaller numbers of confirmed (and therefore funded) eligible households, meaning ultimately more genuinely fuel poor households will miss out on the scheme.



It is a further concern therefore that Local Authorities (LAs) and Housing Associations (HAs) will progress with the installation of alternative, potentially less efficient, heating systems rather than undertaking 'pepper potting' of projects.

Furthermore, there are infill schemes the GDNs have completed in IMD areas where some customers may not have taken the original opportunity for a gas connection. However, the future opportunity for a household to take a connection was factored in to the investment decision to lay the infill scheme in the first place. Following IMD removal, future customers may lose the ability to take a connection, meaning the GDN's ability to recover the full cost of the original investment is lost.

It is often very difficult to get potentially fuel poor residents to engage in the FPNES eligibility assessment when not qualified via the IMD criterion. This is because the process is reliant on a significant degree of administration and evidence gathering, which is both costly and time-consuming. Potentially eligible applicants have also reported that they find the nature and amount of evidence they are required to provide intrusive. This unfortunately results in many of these potentially eligible applicants dropping out of the process before they can be qualified for the scheme. Furthermore, residents can be less likely to participate when they live in properties owned by the council or a housing association, as they see matters relating to the heating systems of the building the responsibility of the property owner, not them as the resident. The same is likely to be true of residents living in private rented accommodation.

Taking all of the above into account, it is highly likely that the number of gas connections completed under the FPNES will fall significantly if the IMD criterion is withdrawn from the eligibility criteria.

Question 3: Is there any other evidence we should consider in making our decision? If so, please provide it.

As mentioned in our response to Question 1 above, we believe there is a lack of evidence currently available that supports the rationale for removing the IMD criterion.

Ofgem have provided data in the consultation letter indicating that households under the current IMD criteria are likely to be only slightly above the national average for fuel poverty in England. However, it is important to note that the data does not allow us to determine the likelihood of a household being in fuel poverty if it resides in a IMD 25% area *and* is not currently connected to the gas network. The link between fuel poverty, IMD threshold and not having a mains gas supply therefore requires more research. We believe that the final three years of this price control would provide an excellent opportunity to continue with the scheme in its current format, whilst undertaking this further research.

We see a marked difference between the number of fuel poor connections we achieve in our Scotland and Southern networks, with connection numbers significantly ahead of target in Scotland. We believe that the difference is principally down to the fact that the funding available in Scotland for central heating systems generates such contrasting results. We would like to explore the funding issue for in-house measures in greater detail with partners such as LAs and HAs in our Southern network, but are concerned that efforts to do this will be undermined by changes to the FPNES scheme eligibility, as described in response to Question 2 above.

We would welcome the opportunity to work with Ofgem and other partners to agree the scope for undertaking and executing research that will allow policy decisions made with regards to the FPNES to be based on a greater base of evidence.



Question 4: Do you consider 1 April 2018 to be an achievable timescale for the eligibility criteria to change?

As reflected in our responses above, we believe there is a fundamental gap in the evidence base that restricts the ability to make a well-informed decision at this stage. As such, we would argue that it is not appropriate to change the eligibility criteria as soon as 1 April 2018, and that no change should occur until this evidence gap has been addressed and the findings assessed.

GDNs would need to update all externally facing material relating to the scheme and undertake a significant programme of retraining internal staff and re-educating external stakeholders were the proposed changes to the eligibility criteria to be enacted. We would suggest that a period of *at least* 12 months' advance notice would be necessary to communicate and implement process changes to qualifying households under the revised eligibility criteria.

Question 5: Do you consider a transition period to be appropriate? If so, do you agree with our proposed timescale?

If the IMD criterion is removed then a transition period is absolutely necessary. Once a connections job is accepted by a customer it can in some cases take in excess of 12 months to complete the works due to external factors, primarily relating to easements or for large-scale projects, reinforcement works, that are outside of both the GDN's and often the customer's control.

Any transition period that will allow time for IMD-qualified connections to be installed before withdrawal of this criterion should therefore be at least 12 months as a minimum. We suggest that a reasonable approach would be that any connections qualified under IMD by the date the proposed changes take effect (currently proposed as 1 April 2018) should be installed by the end of RIIO-GD1 (March 2021), thus alleviating concerns relating to easements and other unforeseen delays.

Question 6: Are there any other transition elements we should consider?

Yes. National Grid and Affordable Warmth Solutions have recently announced a £150M Warm Home Fund (WHF) to be administered over a period of 18 months, with a requirement to complete projects by 2021. One category to be funded is central heating in fuel poor homes receiving a first-time gas connection through the FPNES. Much of these works will be predicated on the assumption that project scale works to connect multiple households to the gas grid will be feasible. As mention elsewhere, removal of IMD could drastically impact upon the feasibility of 'infill' projects of this type.

We, and the other GDNs, have worked hard to promote the FPNES scheme and its benefits, and have long been assured by partners that whilst there is an appetite to put more fuel poor homes onto mains gas, lack of available funds for in-house measures (central heating) is a major limiting factor, except in Scotland where such funding does exist. Having built strong links with partners such as LAs and HAs, who are now rightly enthused by the opportunity to apply for and receive funding through the WHF, it seems hugely disappointing to then fail to deliver projects due to the inability to have certainty that all households within a scheme will qualify. We therefore feel that this is a further reason to leave the FPNES unchanged until the end of RIIO-GD1, or at the very least until such a stage as the impacts can be better researched and understood.

Appendix 2: ENA open letter to Ofgem

17 October 2017

Geoffrey Randall
Associate Partner, RIIO Gas Networks
Ofgem
9, Millbank
London
SW1P 3GE

Dear Geoffrey

Consultation on potential change to the Fuel Poor Network Extension Scheme

Ofgem's consultation letter dated 7 September 2017 outlines proposed changes to the Fuel Poor Network Extension Scheme (FPNES)¹. The Gas Distribution Networks (GDNs)² wish to take this opportunity to provide initial feedback ahead of submitting formal responses to the consultation by the closure date of 2 November 2017.

As stated in the Ofgem consultation letter, *'the Fuel Poor Network Extension Scheme (FPNES) helps households that are not connected to the gas grid to switch to natural gas. It does so by offering funding towards the cost of connecting to the gas network. Access to gas, a cost-effective fuel for heating, is a good way to ensure fuel poor households can access affordable energy supplies.'*

Ofgem's Fuel Poor Network Extension Scheme final decision document³, dated 30 September 2015, sets out the eligibility rules that apply to the FPNES, which have been in place since April 2016. Currently, households eligible for the FPNES must:

- Reside within the 25% most deprived areas, as measured by the government's Index of Multiple Deprivation (IMD) – the "IMD criterion". The IMD is defined separately for England, Scotland and Wales; or
- Be eligible for measures under the Home Heating Cost Reduction Obligation (HHCRO) aspect of the Energy Company Obligation (ECO) (all), Nest (in Wales only) or the Home Energy Efficiency Programmes (HEEPs) (in Scotland only); or
- Be in fuel poverty based on the latest definition/indicator for the relevant area. The definition/indicator differs for England, Wales and Scotland.

Ofgem's current consultation proposes the **complete removal of the 25% IMD criterion for eligibility from 1 April 2018**. The GDNs have significant concerns regarding this proposed change, and have provided in this letter an explanation as to where these arise.

¹ https://www.ofgem.gov.uk/system/files/docs/2017/09/consultation_letter_on_fpnes_-_final.pdf

²Wales & West Utilities, SGN, Cadent, Northern Gas Networks

³ https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/fpnes_3009_published_2_0.pdf

The proposed change was initially outlined in Ofgem's letter dated 10 March 2017⁴, which was retracted to allow for a period of consultation following stakeholder feedback⁵ (which included the GDNs in their letters dated 22 March 2017 and 27 June 2017).

The GDNs wish to reiterate the comments made in our previous correspondence, in that we believe the removal of IMD qualifying criteria will have a significant detrimental impact on GDNs' ability to deliver FPNES connection targets, and more importantly will result in many fuel poor and vulnerable customers missing out on benefitting from the scheme. It is a concern that Local Authorities (LAs) and Housing Associations (HAs) will progress with installation of alternative, potentially less efficient, heating systems rather than undertaking 'pepper potting' of projects, which could be discriminative and lead to customer dissatisfaction as some residents would receive a gas supply, whilst others would miss out.

As socially responsible companies, the GDNs understand our obligations to customers and changes mid-term to the scheme disadvantage future generations and act contrary to Government targets to ultimately eliminate fuel poverty.

We understand one of Ofgem's key objectives is for the proposed changes is to align with other government schemes, namely the Energy Company Obligation (ECO). However, we believe there is a disconnect between the ECO scheme, devolved government schemes and the FPNES which will ultimately constrain efforts to assist fuel poor households.

With specific reference to current consultation letter, we would wish to highlight a number of areas of concern:

'GDNs are broadly on target to meet these [the FPNES] targets'

We would suggest that this is due to Scotland significantly exceeding its revised target (increased from 11,000 to 17,130 in April 2016) and the positive impact that the DECC Central Heating Fund (CHF) made on connection numbers in Wales and England in previous years. The CHF is no longer in effect and therefore GDNs are currently experiencing a reduction in FPNES connection numbers in England & Wales due to the unavailability of funding to meet the *full cost* of installing central heating systems. The devolved administration in Scotland has made available government funding for the entire cost of central heating in fuel poor households, meaning uptake of FPNES connections is far higher than elsewhere in the UK.

'These [the FPNES] criteria have been in place since 1 April 2016' and 'They were updated following a detailed review of the FPNES that we undertook from August 2014 to September 2015'

Prior to April 2016, qualifying criteria of the 20% most deprived (IMD) areas applied to the original FPNES, as agreed with the GDNs in 2009, and was not aligned to ECO, with targets being based on providing assistance to vulnerable customers. This IMD criterion was extended to the 25% most deprived areas in April 2016, following the Ofgem consultation in 2015.

As a result of this consultation, the GDNs re-submit their forecast number of connections in relation to the scheme, and in most cases increased targets. The GDNs considered it a significant and positive factor during the consultation process with stakeholders that this change in IMD eligibility criteria meant more households would benefit from the scheme as partnerships with Local Authorities (LAs) and Housing Associations (HAs) would be further encouraged.

The increase to 25% IMD areas reflected a desire to accommodate the Carbon Savings Community Obligation (CSCO) criteria and to offset the negative impact on connections numbers from other changes in FPNES eligibility, such as removal of the 'over 70' age group. Whilst we accept that CSCO has now been removed from ECO, we believe the total removal of the IMD criteria is not appropriate.

This is primarily because IMD is the only proxy measure available to GDNs and partner organisations (LAs and HAs) to ensure *all* households will qualify for an FPNES connection, thereby enabling project schemes to progress.

⁴https://www.ofgem.gov.uk/system/files/docs/2017/03/fpnes_eco_change_of_eligibility_criteria_letter_final_1.pdf

⁵https://www.ofgem.gov.uk/system/files/docs/2017/04/next_steps_letter_-_fpnes_eligibility_change_-_final.pdf

Extending the gas network to communities previously off gas is only economic if the majority or all households are able to connect. 'Pepper potting' households within a community will ultimately result in partners being reluctant to progress, due to perceived inequalities between households in the same street or block, and/or prohibitive costs due to smaller numbers of confirmed (and therefore funded) eligible households, meaning ultimately more genuine fuel poor households will *miss out* on the scheme.

Furthermore, there are infill schemes the GDNs have completed in IMD areas where some customers may not have taken the original opportunity for a gas connection. However, the future opportunity for a household to take a connection was factored in to the investment decision to lay the infill scheme in the first place. Following IMD removal, future customers may lose the ability to take a connection, meaning the GDN's ability to recover the full cost of the original investment is lost.

It is worth noting that for practical reasons a similar concept is addressed within the ECO Flexible Eligibility guidance, which allows for 'in-fill' non-fuel poor properties to be included within a project if it facilitates more effective delivery of solid wall insulation schemes that will benefit multiple fuel poor households. ECO Flex can potentially be used as a proxy in a project context, but can only be applied to private households, and therefore excludes social housing properties owned by LAs and HAs.

'[GDNs are expected to] adopt new and innovative approaches' and 'find new and innovative approaches to identifying households that would qualify'

If the proposed change goes ahead, we request that Ofgem provide further guidance in this respect and allow GDNs a review period in which they can collaborate with external bodies to research and trial alternative means by which qualifying customers can be identified. We understand that ECO-obligated companies (Suppliers) spend a significant proportion of their ECO budgets on finding eligible properties and demonstrating the impact of the action taken. The GDNs wish to ensure that the majority of their allowance is spent on actual measures which result in benefits the household, both now and to any future tenants or owners. A funding mechanism for research should also be considered.

Ofgem have provided data in the consultation letter indicating that households under the current IMD criteria are likely to be only slightly above the national average for fuel poverty. However, it is important to note that the data does not allow us to determine the likelihood of a household being in fuel poverty if it resides in an IMD area **and** is not currently connected to the gas network. The link between fuel poverty, IMD and not having a mains gas supply therefore requires more research. The GDNs believe that the final three years of this price control would provide an excellent opportunity to continue with the scheme in its current format, whilst undertaking this further research.

The GDNs have also reviewed the Government's Index of Multiple Deprivation data, which is stated in the 2015 English guidance⁶ as being utilised by National and Local organisations to target and distribute funding to the most deprived areas i.e. it is used as a proxy elsewhere in same way that it is applied within FPNES.

The seven key domains used to evaluate the level of IMD are income deprivation, employment deprivation, education, skills and training deprivation, health deprivation and disability, crime, barriers to housing and services, and living environment deprivation (which incorporates living in housing in poor condition/without central heating). Many of these align with the Government's criteria for being in fuel poverty e.g. household income, cost of energy and energy efficiency. We would respectfully ask Ofgem to advise why they do not consider these two Government policies to be interfaced.

'We recognise that the proposed change would require a change in approach from GDNs' and '[the GDNs will need to] take all reasonable steps to meet their targets'

GDNs would ask Ofgem to consider the reputational impact of failing to meet revised targets. Removal of IMD would mean the GDNs would seek to revise fuel poor connection targets to reflect the reduced ability to deliver (similar in concept to the *increase* in targets in 2016 following extension of the IMD criterion eligibility from 20% to 25%). The reduction however would likely be much higher due to full removal of IMD criteria.

⁶ https://factsandfigures.herefordshire.gov.uk/media/40905/english_index_of_multiple_deprivation_2015_-_guidance.pdf

The GDNs wish to emphasise our concerns that vulnerable and fuel poor consumers will be disadvantaged by the proposed change to remove IMD altogether. As discussed elsewhere, removal of IMD will result in community schemes that previously would have progressed no longer occurring. As an industry, we want to maximise our opportunities to provide solutions to ending fuel poverty for consumers. Retaining IMD will help support the Government's Fuel Poverty Strategy and facilitate the targeting of ECO funding to those households who now have access to gas and the additional savings that could therefore be realised.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Smith". The signature is fluid and cursive, with a long horizontal stroke at the end.

David Smith
Chief Executive